

September 25, 2020

Week in Review

Hammering the message home

Federal Reserve officials are putting their mouths where their monetary policy is. Ever since Chair Jerome Powell introduced the major revision to its policy framework during the Jackson Hole central-bank symposium, the Fed has gone to great lengths to ensure that the markets interpret it correctly and understand it is serious about the change.

First came the Federal Open Market Committee laying out strong forward guidance in its September meeting, with Powell reiterating they have taken the stance of allowing inflation to overshoot its long-held 2% target for “some time” until the labor market truly recovers. They won’t raise rates until they see this, rather than doing so when inflation simply hits the target. In other words, they now are targeting average inflation rather than a point.

Last week, the Fed followed that amplification with what can be described as a full-on rush. Policymakers delivered no less than 24 speeches in five days. That may be a record for them. The amount even included some policymakers speaking twice, as Powell did before Congress. The upshot is that they all tried to communicate this same message.

A secondary communication was that the economic recovery is weak at best and that fiscal stimulus is needed to bolster it. Unfortunately, a stimulus package may not come until after the election season, which kicks into gear this week with the first presidential debate in Cleveland.